



WESTERN GOVERNORS' ASSOCIATION

Judy Martz
Governor of Montana
Chairman

James M. Souby
Executive Director

Headquarters:
1515 Cleveland Place
Suite 200
Denver, Colorado 80202-5114

303-623-9378
Fax 303-534-7309

Washington, D.C. Office:
400 N. Capitol Street, N.W.
Suite 388
Washington, D.C. 20001

202-624-5402
Fax 202-624-7707

www.westgov.org

August 22, 2002

Patrick H. Wood
Chairman
Federal Energy Regulatory Commission
888 First Street, NE, 11A
Washington, DC 20426

Linda K. Breathitt
Commissioner
Federal Energy Regulatory Commission
888 First Street, NE, 11C
Washington, DC 20426

The Honorable Nora Brownell
Commissioner
Federal Energy Regulatory Commission
888 First Street, N.E., Rm. 11A
Washington, DC 20426

William L. Massey
Commissioner
Federal Energy Regulatory Commission
888 First Street, N.E., Rm 11D
Washington, DC 20426

Dear Chairman Wood and Commissioners Breathitt, Brownell and Massey:

Western governors are in the midst of our review of the Commission's proposed Standard Market Design rule. Our review thus far raises a number of concerns that we want to convey to you. These are listed below. Individual governors and/or the Western Governors' Association will be providing additional comments after we complete our review of the Commission's proposal.

- The SMD rule seems to mark an end to efforts to form voluntary RTOs in the West. This is unfortunate and serves to undercut the enormous time, effort, and expense that has gone into the development of voluntary RTOs in the Western Interconnection.
- Expansion of the Commission's authority into state decisions such as resource adequacy and demand response is not warranted. We agree with FERC that more work needs to be done in these areas and significant efforts are underway in the West. These efforts, which would benefit from FERC's participation, may be undermined by the SMD rule. Rather than imposing an SMD rule from Washington, D.C., we believe FERC should participate in ongoing regional efforts on resource adequacy, transmission planning and demand response.
- Key elements of the SMD proposal are extrapolated from the experience of PJM (Pennsylvania-New Jersey-Maryland), a geographically small, "tight" power pool in the East. We have serious concerns about the wisdom and unintended consequences of trying to graft the PJM approach on to the huge Western Interconnection that spans parts of three nations.

Chairman Patrick H. Wood
Commissioner Linda K. Breathitt
Commissioner Nora Brownell
Commissioner William L. Massey
August 22, 2002
Page 2

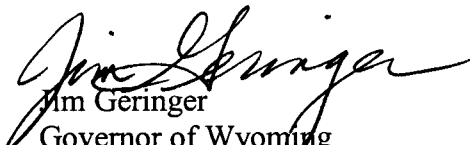
There are significant differences between the experience in the East and the West. For example, the pricing system FERC is proposing has only been tested in systems dominated by thermal generation. In the West, hydropower provides a large share of generation. The West does not use Transmission Loading Relief schemes, a practice the SMD rule attacks. Unlike the PJM region, public power, which is not directly subject to the SMD rule, provides a significant share of the generation and transmission in the West.

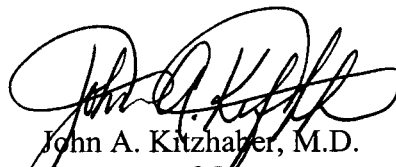
- Our experience in the West over the past two years has shown the immense personal and economic hardship resulting from not fully understanding the implications of changes in electricity policy. The implications of FERC's proposal need to be carefully studied and understood before moving ahead with the provisions of the SMD rule in the West.
- FERC's proposal to unravel protections afforded to utilities' native load customers is very troubling. These protections have been carefully crafted by state PUCs and are time-tested.
- The presently fragile Western economy cannot afford missteps that may result from the unprecedented changes to our electric power system that are embodied in the SMD rule. The uncertainties that would be introduced by the SMD rule may dampen investor confidence and leave the West short of generation.

There may be regions of the country that are anxious to implement the SMD rule. We suggest that FERC test its SMD rule in those regions first and learn from that experience.

We intend to continue our examination of the proposed SMD rule and to share with you and our Congressional delegations our findings.

Sincerely,


Jim Geringer
Governor of Wyoming
Co-lead Governor for Energy


John A. Kitzhaber, M.D.
Governor of Oregon
Co-lead Governor for Energy